



## **Private Sector Survey on Constraints to Doing Business in Georgia: Results and Analysis**

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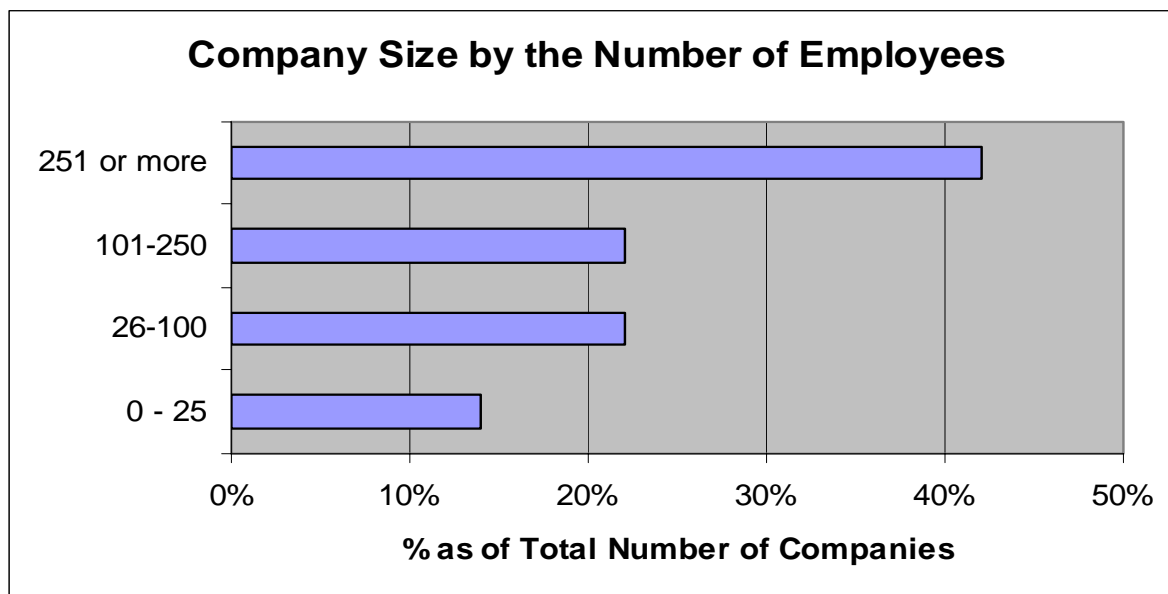
## BACKGROUND

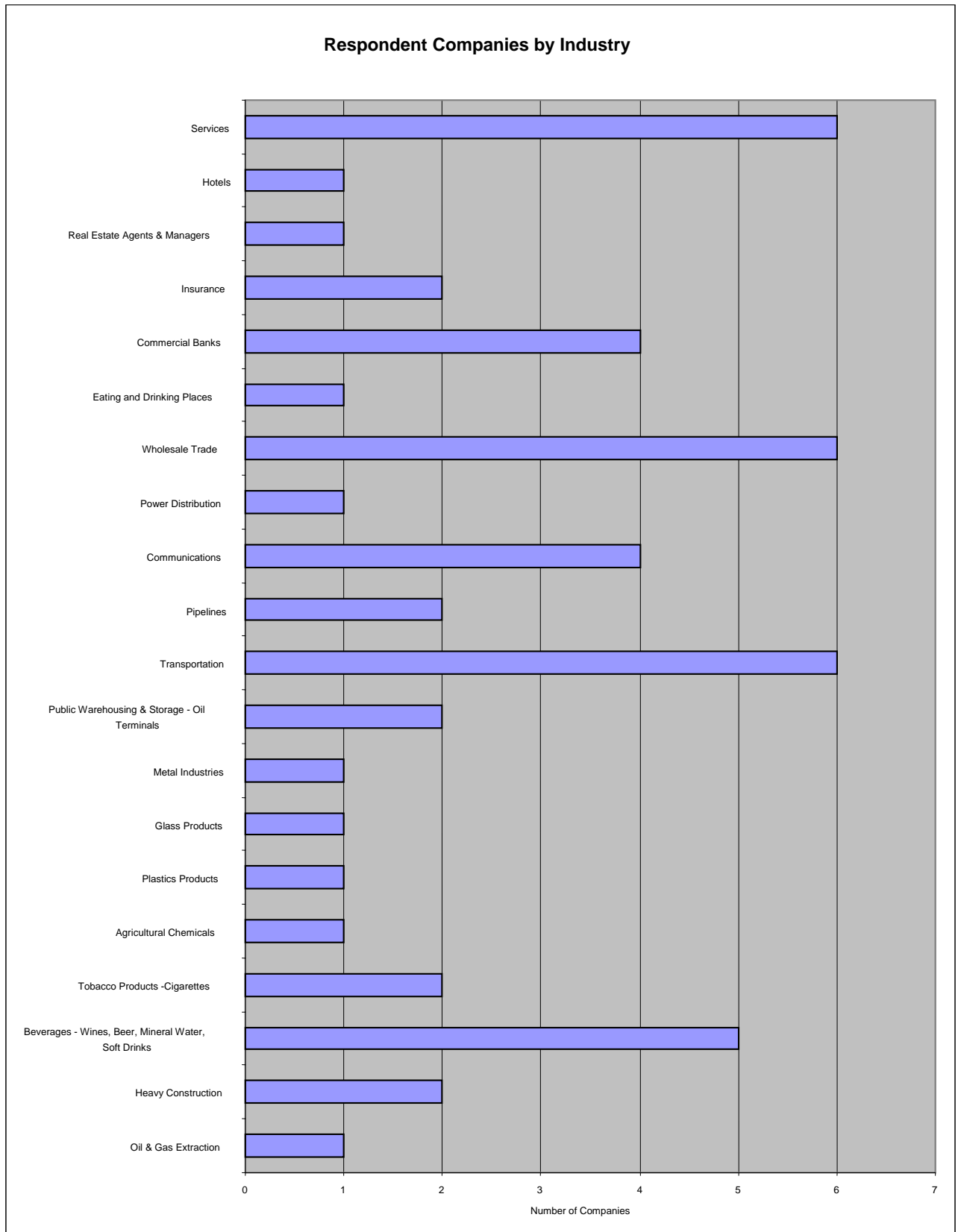
At USAID's request, GEGI carried out a survey of 50 Georgian companies in order to identify and prioritize the main constraints to doing business in Georgia. The survey was carried out between March and April 2004.

### *Survey Audience Selection and Composition*

The initial request was followed by a discussion regarding the selection of a survey audience that is representative of the Georgian business community. GEGI and USAID agreed to select 50 well-known large companies to ensure that the audience was generally representative of the economy's sectoral composition (agricultural sector is not represented in this selection). The distribution of respondents by industry is illustrated in the graph on the following page.

The respondent companies include a mix of large, medium, and small sized companies. The number of employees ranges between 8 and 4,500. As the graph below illustrates, 14 percent of respondents employ less than 26 workers, 22 percent of respondents employ between 26 and 100 workers, 22 percent employ between 101 and 250 workers, and 42 percent employ 251 workers or more.





## **SURVEY METHODOLOGY**

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The in-depth survey was administered through in-person interviews lasting between 1.5 and 2.0 hours. Each company was asked to respond to questions in the following areas:

### **I. Company Background**

- Time of incorporation in Georgia
- Partner firm(s) (both foreign and Georgian)
- Type(s) of economic activity
- Number of employees
- Membership in business association(s)

### **II. General Discussion**

- General comments on the business environment.

### **III. Business Constraints**

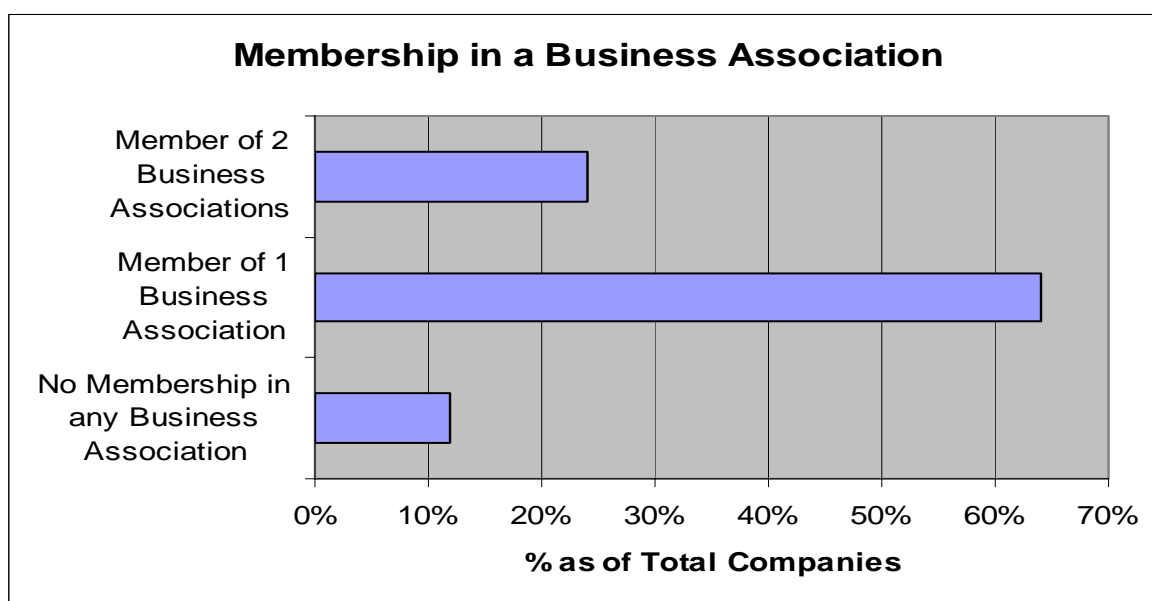
- Taxation
  - Number and types of taxes paid, problem areas
  - Advance tax payments and problems related to refunds
  - Tax rates paid
  - Tax administration issues
  - Other comments
- Customs
  - Legal and regulatory issues
  - Official customs duties, fees, and other payments
  - Customs administration (including unofficial payments)
  - Different agencies involved in customs control
  - Other comments
- Licenses and Permits
  - Licenses and permits obtained; views on their necessity
  - Cost, time and other constraints in obtaining licenses
  - Identification of the most bureaucratic licensing process
  - Other comments
- Inspections
  - Number of inspections per year
  - Views on necessity of inspections
  - Other comments

## DISCUSSION OF RESPONSES

The survey's response rate was high – only two of the companies approached declined to participate.

**Foreign investment** participation in companies surveyed was very high – 76 percent of respondents indicated that they had some form of foreign equity participation.<sup>1</sup> Foreign investment source countries include the United States of America, the United Kingdom, Italy, Turkey, the Netherlands, France, and Russia, among others. In addition, some respondents indicated some form of financing through the International Finance Corporation, the European Bank for Reconstruction and Development and Overseas Private Investment Corporation.

As the following table illustrates, 88 percent of respondents indicated membership in at least one **business association** and over 20 percent maintain membership in two associations. Six companies out of the 50 are not members of any business association. Slightly more than 20 percent of respondents indicated that they received some benefits from association membership, with the remainder describing membership as a formality only.



In terms of **business constraints**, the tax system was identified most frequently as inhibiting business operations, with 40 percent of respondents recognizing it as a number one concern. In general, the following tax-related issues were identified by respondents:

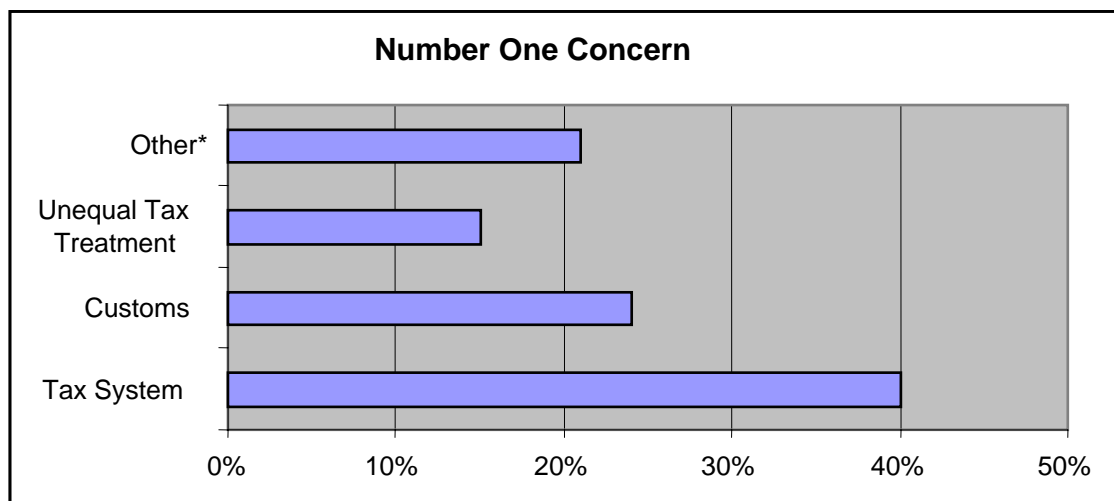
- Social and personal income taxes (high rates)
- VAT (very complicated refund mechanism, high rate)
- Road tax (lack of rationale)
- Advertisement tax (lack of rationale)
- Ambiguity in and unpredictability of the Tax Code

<sup>1</sup> It appears that majority of the large Georgian companies have some type of foreign investment participation –for example, a number of large former soviet factories have been bought by foreign investors.

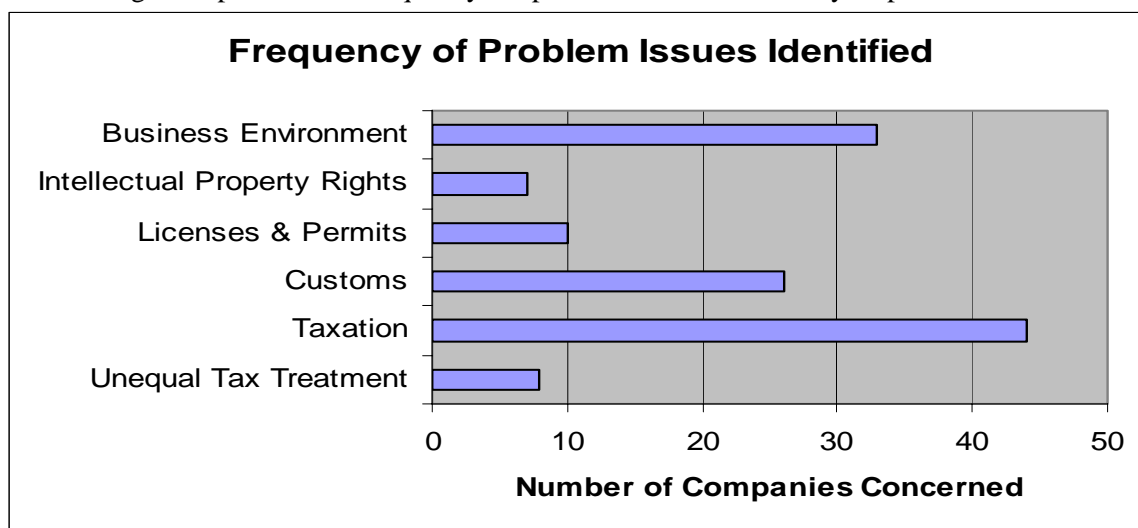
The second most frequently identified issue is customs, identified by 24 percent of respondents as a number one concern. In general, the following customs-related issues were identified by respondents:

- Poor customs administration (smuggling and corruption)
- Too many permissions and licenses required
- High duty rates

The third most frequent issue identified is competition with tax evaders, identified by 16 percent of the respondents as a number one concern.



The following table presents the frequency of specific issues identified by respondents:



\* The "other" concerns were: necessity of pension & medical insurance reform, NBG regulations, a need of business environment improvement, a need of transport industry development, lack of government support for local producers, corrupted court system, etc.

Issue Area	Problems Identified by Respondents	Number of Responses
<b>1. UNEQUAL TAX TREATMENT</b>	<b>Unfair competition with tax and customs evaders</b>	<b>8</b>
1.1. Smuggling	Borders are not controlled, customs administration is inefficient	5
1.2. Inland tax evasion	Tax administration is inefficient	8
<b>2. TAXATION</b>		<b>44</b>
2.1. Tax Policy	Too many taxes, high rates, ambiguity and unpredictability of the Tax Code	40
2.1.1. Social taxes & personal income tax	Very high rates; no benefit from social contributions; taxation of non-residents	36
2.1.2. VAT	High rate	16
2.1.3. Road tax	Unclear tax base	8
2.1.4. Advertisement tax	Not justifiable, high rate	11
2.1.5. Excise tax	High rates	2
2.1.6. Discrepancies with Tax Code	Discrepancies between the Tax Code and International Accounting Standards	3
2.1.7. Profit tax	High rate	4
2.1.8. Access to credit	High tax rates force companies to hide income, thus distorting financials	1
2.1.9. Income tax	Taxation of non-residents (Article 64 of the Tax Code)	4
2.1.10. Property tax	High rate	4
2.2. Tax administration	Ambiguity of the Tax Code, complicated tax administration mechanism	37
2.2.1. VAT	Very complicated refund system	16
2.2.2. Excise stamps	New regulation of the Finance Ministry – damaged stamps are not replaceable	1
2.2.3. Unqualified & corrupt tax officials		6
2.2.4. Lack of communication between tax officials and firms		3
2.2.5. Tax enforcement	Non-justifiable seizure of bank accounts	6
2.2.6. Audit of regional branches by local tax departments		1
2.2.7. High penalties		1
<b>3. CUSTOMS</b>		<b>26</b>
3.1. Customs Policy		11
3.1.1. Customs taxes	High rates (especially for import of fixed assets and materials for local production)	12
3.2. Customs Administration		21



3.2.1. Export/re-export procedures are costly and time-consuming		4
3.2.2. Inflexible customs administration mechanism	Frequent changes in regulations, and bureaucracy in general	14
3.2.3. Unqualified & corrupt customs officials		9
<b>4. LICENSES &amp; PERMITS</b>	<b>Unnecessary requirements, lack of implementation of existing laws</b>	<b>10</b>
<b>5. INTELLECTUAL PROPERTY RIGHTS</b>	<b>Lack of an effective enforcement mechanism for brand protection</b>	<b>7</b>
<b>6. BUSINESS ENVIRONMENT</b>		<b>33</b>
6.1. Lack of support to private sector (local producers & FDI)	Lack of incentives	13
6.2. Need for pension and medical insurance reform	Insurance industry is not adequately regulated	1
6.3. Railway Department	Very bureaucratic system, inadequate tariff policy	3
6.4. Non-effective judicial system	Adjudication is time-consuming and costly	2
6.5. National Bank regulations	Require improvement	2
6.6. Transport and construction industries need development	Ports, railway, road transport non-competitive, construction lacks regulation	2
6.7. Limited and expensive credit	Loan procedures are overly complicated	1
6.8. Energy supply problem	Frequent electricity cuts	3
6.9. Social environment	Local opposition for BTC pipeline construction	2

While many of the constraints described apply across industries, a number of industry-specific issues was identified as well. Such issues include:

- Manufacturers were more concerned about the lack of government support (incentives) for local producers. Specifically, they identify high customs duties for imported production materials, leading to high production costs. Manufacturers also identified intellectual property rights protection as a problem.
- Freight forwarders are uniformly concerned with customs administration problems.
- Banks are concerned about some National Bank regulations, non-effective judicial system and the Tax Code related problems.
- Importers identified tax evasion and smuggling by competitors as a problem area.

## DETAILED SURVEY RESPONSE

### NOTE: NAMES REMOVED FOR CONFIDENTIALITY

The Survey has been undertaken by Maka Gureshidze of GEGI at the request of USAID for identification of problems/impediments that Georgian companies face in their day-to-day activities

No.	Company Name	Industry SIC Codes	Industry	Foreign Investment or 100% Georgian Ownership	Number of Business Associations of Membership	Number of Employees	Name, Position, and Title of the Person(s) Interviewed	Interview Date	Top Three Concerns Identified		
									Concern # 1	Concern # 2	Concern # 3
1	-	-	Tobacco products	Foreign investment	2	26-100	Financial Manager	3/16/2004	<u><b>TAX</b></u> <i>High excise tax</i> causes high cost of production <i>Excise stamps:</i> new regulation - damaged stamps are not replaceable <i>VAT</i> (both, customs and inland) introduced from 07/01/04 will cause price increase <i>Social &amp; Personal Income Tax Rates</i> are very high (why non-residents pay?) <i>Advertisement tax</i> is very high (should it exist?) <i>Tax administration:</i> unqualified tax auditors; requests for advance payments (to meet tax revenue plans); complicated & illogical mandatory procedures (e.g. cash books); unjustifiable tax enforcement mechanism (seizure of bank accounts)	<u><b>NON-COMPATIBILITY</b></u> <i>Cost of Production</i> is extremely high. The company may shift production to the neighboring country	<u><b>CUSTOMS</b></u> <i>Export procedures</i> are costly and time-consuming

2	-	-	Transportation services	Foreign investment	2	26-100	General Manager	3/16/2004	<b><u>TAX</u></b> <i>The tax system is complicated: too many taxes, high rates</i> <b><u>Tax administration</u></b> (Calculation procedures are complicated)	<b><u>LACK OF GOVERNMENT COOPERATION WITH PRIVATE SECTOR</u></b>	<b><u>CUSTOMS</u></b> <i>Customs administration (from the customers' standpoint): frequent changes in regulations for customs procedures; customs officers are unknowledgeable; very complicated mechanism (e.g. letters); too many certificate requirements; necessity of unofficial payments</i>
3	-	-	Wholesale trade - electronics	Foreign investment	1	101-250	President & CEO	3/16/2004	<b><u>UNEQUAL TAX TREATMENT: TAXPAYERS VS NON-TAX PAYERS</u></b>	<b><u>PROTECTION OF INTELLECTUAL PROPERTY RIGHTS</u></b> Legislation needs to be changed; PR campaign is necessary; enforcement measures should be more strict	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high - one of the largest expenses for the company <b><u>Tax administration:</u></b> unqualified tax auditors
4	-	-	Heavy construction	Georgian	1	101-250	Marketing Director	3/18/2004	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>VAT</i> rate is high and refund mechanism very complicated	<b><u>UNEQUAL TAX TREATMENT: TAXPAYERS VS NON-TAX PAYERS</u></b>	

5	-	-	Insurance	Foreign investment	1	101-250	Finance Director	3/19/2004	<p><b><u>CORRUPTION</u></b>  <i>Unfair &amp; illegal lobbying from competitors</i>  <i>Unequal Tax Treatment:</i> taxpayers VS non-taxpayers</p>	<p><b><u>TAX</u></b>  <i>Social &amp; Personal Income Tax Rates</i> are very high  <i>Ambiguity of the Tax Code</i>  <i>Tax administration:</i> incompetent tax auditors (have not been able to write an audit report during a year!) whose requirements are unjustifiable (e.g. taxation of interest rate difference) and lead to court suits; requests for advance payments (to meet tax revenue plans);  <i>Discrepancy between the Tax Code and the International Accounting Standards</i></p>	<p><b><u>CUSTOMS</u></b>  <i>Customs taxes</i> for importation of fixed assets for company use should be abolished or lowered  <i>Customs administration:</i> necessity of unofficial payments</p>
6	-	-	Air courier services	Foreign investment	1	0-25	Country Manager	3/19/2004	<p><b><u>CUSTOMS</u></b>  <i>Customs administration:</i> frequent changes in staff at the airport customs; complicated, unclear and non-flexible mechanism of customs clearance procedures for importation of sample goods (e.g. pharmaceuticals); introduction of minimum customs fee 50 GEL; bureaucratic mechanism (e.g. letters) for clearance; necessity of unofficial payments</p>	<p><b><u>AVIATION PROBLEM - LITTLE NUMBER OF FLIGHTS</u></b></p>	<p><b><u>TAX</u></b>  <i>Ambiguity of the Tax Code</i>  <i>Social &amp; Personal Income Tax Rates</i> are very high</p>

7	-	-	Wholesale trade - petroleum	Foreign investment	2	101-250	General Director	3/19/2004	<b><u>UNEQUAL TAX TREATMENT: TAXPAYERS &amp; NON-TAX PAYERS</u></b>	<b><u>TAX</u></b> <i>Import taxes</i> (80%) for oil products are very high <i>Social &amp; Personal Income Tax Rates</i> are very high <i>VAT</i> rate is high <i>Profit tax</i> rate is high	<b><u>INTERNATIONAL STANDARDS</u></b> The requirements of Sakstandard are not executed by competitor companies
8	-	-	Wholesale trade - groceries	Foreign investment	1	101-250	Chairman of the Board	3/22/2004	<b><u>UNEQUAL TAX TREATMENT: TAXPAYERS VS NON- TAX PAYERS</u></b>	<b><u>TAX</u></b> <i>Article 218</i> , section 7 of the Tax Code <i>Article 88</i> of the Tax code	<b><u>HARASSMENT OF BUSINESSES BY GOVERNMENTAL BODIES</u></b>
9	-	-	Insurance	Foreign investment	1	26-100	Insurance Director	3/24/2004	<b><u>NECESSITY OF PENSION REFORM &amp; MEDICAL INSURANCE REFORM</u></b> <i>Obstacle to Pension Reform:</i> private pension schemes are attractive and government is reluctant to loose revenue to finance pensioners <i>Medical Insurance System is not adequate</i> in the country	<b><u>INSURANCE SPHERE NEEDS TO BE FILTERED</u></b> There are 20 insurance companies in the sector, however only 6 companies actually function. In order to increase degree of soundness and safety of the insurance system, as well as for further market development, the companies need to be amalgamated	<b><u>SUPERVISION BODY - Georgian Insurance State Surveillance Service NEEDS TO BE STRENGTHENED</u></b>
10	-	-	Transportation services	Foreign investment	1	26-100	Field Operations Manager	3/24/2004	<b><u>CUSTOMS</u></b> <i>Adjara Problem</i> - the regional customs in Adjara obliges companies to pay customs clearance payments to Adjara customs <i>Customs administration</i> - unreasonable certification requirements	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>Profit Tax rate</i> is high <i>Ambiguity of the Tax Code</i> <i>Tax Administration</i> - lack of communication on changes to the legislation from the tax officers	<b><u>BUREAUCRATIC PROCEDURES IN THE RAILWAY DEPARTMENT</u></b>

11	-	-	Air Transportation	Georgian	-	251 or more	Commercial Director; Head of Legal Department	3/24/2004	<b><u>UNEQUAL COMPETITION or PROBLEM OF PARITY</u></b> Well-known companies should operate on parity basis, i.e. they should operate flights with the same frequency and prices as the Company	<b><u>CUSTOMS</u></b> Due to the introduction of customs taxes for the items that used to be imported by Airline clients from UAE and China, the clients stopped using the charter flights. Commercants now smuggle goods thru Red Bridge	<b><u>LACK OF STATE SUPPORT</u></b>
12	-	-	Commercial banks	Foreign investment	2	251 or more	Deputy General Director; Chief Accountant	3/24/2004	<b><u>TAX</u></b> <i>Ambiguity of the Tax Code</i> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>Profit Tax rate</i> is high <i>Impediment to credit access:</i> due to high taxes companies tend to hide income and hence their financials are distorted; this makes for banks difficult to assess playability of companies	<b><u>NON-EFFECTIVE JUDICIAL SYSTEM</u></b> <i>Adjudication is very time-consuming and costly</i>	<b><u>BUSINESS CLIMATE HAS TO BE IMPROVED</u></b>

13	-	-	Commercial banks	Foreign investment	1	251 or more	Deputy General Director	3/25/2004	<p><b><u>NBG REGULATIONS</u></b>  <i>Capital requirements are very hard-</i> due to high dolarization, liabilities denominated in USD are high  <i>One shareholder is not entitled to hold more than 25 % in share capital</i>  <i>Penalties/fines</i>, which were introduced recently, are unreasonably high and unjustifiable</p>	<p><b><u>TAX</u></b>  <i>Ambiguity of the Tax Code</i>  <i>Social &amp; Personal Income Tax Rates</i> are very high  <i>Tax administration</i> procedures are complicated: branches are audited by regional tax inspections  <i>Opening of a corporate bank account</i> requires tax registration certificate, which is a big problem for companies doing transit business (penalty for violation of this rule is 10% from total turnover on the account)  <i>Customs taxes</i> should be lower for importation of fixed assets (capital expenditure is high)</p>	<p><b><u>MONETARY POLICY</u></b>  <i>Frequent exchange rate fluctuations</i> is a big problem</p>
14	-	-	Beverages - alcoholic	Foreign investment	-	251 or more	Finance Director	3/25/2004	<p><b><u>TAX</u></b>  <i>Social &amp; Personal Income Tax Rates</i> are very high  <i>Taxes for importation</i> of materials for production are high. Competition is unhealthy between the company and smugglers</p>	<p><b><u>LACK OF STATE SUPPORT TO WINE INDUSTRY</u></b></p>	<p><b><u>PROTECTION OF INTELLECTUAL PROPERTY RIGHTS</u></b>  Enforcement measures should be more strict for falsificators</p>

15	-	-	Transportation services	Foreign investment	2	0-25	General Director	3/30/2004	<p><b><u>TRANSPORT INDUSTRY IS NON-COMPETITIVE AND NEEDS DEVELOPMENT</u></b></p> <p><i>Ports</i> (Batumi and Poti) are small and don't have capacity to receive huge cargos - they are not adequately equipped; the governance is soviet</p> <p><i>Railway</i> has soviet style management - their approach is not flexible; the system is very bureaucratic; tariff policy is a big problem</p> <p><i>Road</i> transport: the existing trucks and trailers in the country are very old</p> <p>There is a big corruption at Azeri-Georgian border (Red Bridge) connected with transit operations</p>	<p><b><u>CUSTOMS</u></b></p> <p><i>Customs Administration</i> - procedures are very complicated; e.g.: a need for customs escort for transit and even import, permissions for excisable goods are very time-consuming, costly and un justifiable; Ministry of Agriculture requires permissions (phytosanitary and veterinary) and fees for these permissions are paid twice in Tbilisi and in Poti</p>	<p><b><u>TAX</u></b></p> <p><i>Freight forwarders are treated unfairly and hence they are not compatible:</i> due to existing 4% tax for non-residents, Georgian freight forwarders loose job - it's cheaper to contract foreign expeditors</p> <p><i>Social &amp; Personal Income Tax Rates</i> are very high</p>
16	-	-	Educational services	Georgian	1	26-100	Associate Dean of Academic Affairs	3/30/2004	<p><b><u>BUSINESS ENVIRONMENT IMPROVEMENT</u></b></p> <p>The more business develops the more is demand for trainings</p>	<p><b><u>TAX</u></b></p> <p><i>Social &amp; Personal Income Tax Rates</i> are very high</p> <p><i>Tax administration</i> - tax officers are not adequately educated</p> <p><i>Taxation of expenditure for training of employees</i> is not reasonable</p>	



17	-	-	Beverages - soft	Georgian	1	251 or more	Financial Manager	3/30/2004	<p><b><u>LACK OF GOVERNMENT SUPPORT AND INCENTIVES FOR BUSINESSES, IN PARTICULAR FOR LOCAL PRODUCERS</u></b></p> <p><i>Government's attitude</i> to businesses has been negatively changed since 1998</p> <p><i>Businesses are not protected</i></p> <p><i>No incentives</i> in new technologies and fixed assets for local producer companies</p>	<p><b><u>TAX</u></b></p> <p><i>Tax Code</i> - absence of global vision of a tax code model and study of fiscal effect</p> <p><i>Unpredictability</i> due to frequent changes in legislation</p> <p><i>VAT refund mechanism</i> is unjustifiably complicated (currently the Tax Department owes a big amount of money to the company); due date for payment is very close to reporting period; monthly penalty for late payment is high</p> <p><i>Social &amp; Personal Income Tax Rates</i> are very high</p> <p><i>Tax Administration</i> - tax enforcement mechanism is severe; no effective communication between tax officers and the company</p> <p><i>Road tax</i> - with abolishing entrepreneur tax, the tax base for road tax increased</p> <p><i>Advertisement tax</i> rate is very high (should this tax exist?)</p>	<p><b><u>PROTECTION OF INTELLECTUAL PROPERTY RIGHTS</u></b></p> <p>Legislation needs to be changed; PR campaign is necessary; enforcement measures should be more strict</p>
18	-	-	Heavy construction	Foreign investment	1	251 or more	Project Manager	3/30/2004	<p><b><u>TAX</u></b></p> <p><i>Social &amp; Personal Income Tax Rates</i> are high</p> <p><i>VAT rate</i> is high</p>		

19	-	-	Hotels	Foreign investment	1	251 or more	CFO	3/31/2004	<p><b><u>TAX</u></b>  <i>High tax rates (Social, VAT, Hotel, Property)</i> - no financial means left for re-investments  <i>Ambiguity of the Tax Code</i>  <i>Loan interest expense deduction for tax purposes</i>  <i>VAT administration</i> mechanism is very complicated  <i>Income tax for non-residents</i> (loan interest repayment) is a big problem  <i>VAT reverse charge</i> (non-residents services are not subject to VAT except real estate!)</p> <p><b><u>CUSTOMS</u></b>  <i>Customs Administration</i> - smuggling puts Sante Walsh in unhealthy competition  <i>Necessity of unofficial payments</i> makes clearance procedures expensive</p> <p><b><u>LICENSES &amp; INSPECTIONS</u></b>  The Society of Authors and Performers issues 'copyright license' (e.g. for musicians playing in hotels)  Inspections are corrupted</p>	<p><b><u>AMBIGUITY, INCONSISTENCY AND NON-IMPLEMENTATION OF LEGISLATION</u></b></p>	<p><b><u>NON-EXISTENCE OF STATE POLICY FOR BUSINESS AND INVESTMENT DEVELOPMENT</u></b></p>
20	-	-	Commercial banks	Foreign investment	1	251 or more	Head of Legal Department	3/31/2004	<p><b><u>CORRUPTED COURT SYSTEM - LONG AND COSTLY COURT PROCEDURES</u></b></p>	<p><b><u>LEGISLATION</u></b>  <i>NBG regulations</i> - high unjustifiable sanctions established since January 1, 2004</p>	<p><b><u>TAX</u></b>  <i>Georgian-German double taxation treaty</i> is old and not valid  <i>Tax administration</i> is a problem</p>

21	-	-	Health services	Foreign investment	1	101-250	Executive Director	3/31/2004	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>Ambiguity of the Tax Code</i> <i>Complicated tax administration mechanism</i>	<b><u>CUSTOMS</u></b> <i>Customs administration procedures are complicated</i> - service of quality inspection, etc. <i>Customs taxes are high</i> on medical equipment <i>Problem of classification of different goods - tax rates vary as per classification codes</i>	<b><u>LICENSES</u></b> <i>Licensing of doctors</i> - very complicated and bureaucratic procedures <i>Each category of activities requires license</i> (surgery, sonogram, etc.) <i>Licenses for medicines &amp; vaccines</i> , which are not registered in Georgia
22	-	-	Eating and drinking places	Foreign investment	1	101-250	Chief Accountant	3/31/2004	<b><u>CUSTOMS</u></b> <i>Customs procedures</i> are complicated, especially for re-export regime; legislation should be more flexible <i>Customs taxes are high</i> <i>Veterinary, phytosanitary and other requirements</i> are very bureaucratic	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>VAT rate is high</i> ; <i>administration complicated</i> <i>Advertisement tax is high</i>	<b><u>LICENSES</u></b> <i>Sakstandard</i> requires quality certification of different products The company pays <i>royalty</i> which is taxed 10% income + 20 % VAT
23	-	-	Commercial banks	Foreign investment	2	251 or more	Deputy General Director	4/1/2004	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>Profit tax</i> rate is high <i>Income tax</i> - instructions contradict tax code <i>Income tax and VAT for non-residents</i> - ambiguous <i>Tax administration mechanism</i> is very cabal (seizure of bank accounts) <i>Property tax</i> - tax code contradicts IASs <i>Road tax</i> - rate is high and generally the tax is not justified <i>Customs tax</i> rates are high	<b><u>CIVIL CODE</u></b> <i>Secured lending</i> <i>Public registry</i> <i>Priorities of secured interest</i>	<b><u>5 BANKS OUT OF 25 HOLD 75% OF ASSETS</u></b> Small banks need to consolidate

24	-	-	Communication	Foreign investment	2	251 or more	Financial Director	4/1/2004	<b><u>UNEQUAL TAX TREATMENT: TAXPAYERS &amp; NON-TAXPAYERS</u></b>	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>VAT</i> rate is high; administration complicated <i>Advertisement tax</i> rate is high <i>Property tax</i> is high	<b><u>BUSINESS ENVIRONMENT NEEDS TO BE IMPROVED</u></b>
25	-	-	Beverages - alcoholic	Foreign investment	1	101-250	Financial Director	4/2/2004	<b><u>UNEQUAL TAX TREATMENT: Taxpayers VS non-taxpayers Intellectual property rights</u></b> are not protected	<b><u>TAX</u></b> <i>Social &amp; Personal Income Tax Rates</i> are very high <i>VAT</i> rate is high; refund administration complicated (state owes 200,000 Gel to the company) <i>Tax enforcement</i> mechanism (seizure of bank accounts) is unjustifiable <i>Customs tax</i> rate (12%) is high	<b><u>LIMITED AND EXPENSIVE CREDIT RESOURCES</u></b>
26	-	-	Communication	Foreign investment	1	101-250	Finance Manager	4/6/2004	<b><u>TAX</u></b> Adjara/double taxation problem: cash collection illegal arrests by Adjara officials and the same time payments requested by large taxpayers inspectorate	<b><u>ENERGY SUPPLY PROBLEM</u></b>	<b><u>CUSTOMS</u></b> No customs incentives for FDI's - the rates are high
27	-	-	Real estate agents and managers	Georgian	-	0-25	Director	4/6/2004	<b><u>LEGISLATION FRAMEWORK</u></b> There is <i>no general plan of construction in the city</i> <i>State expertise introduced</i> on construction projects complicates operation There is <i>regulation norms</i> (for different zones of Tbilisi) issued by Tbilisi Sakrebulo, which is illegal No implementation of <i>rule of law</i>	<b><u>TAX</u></b> <i>VAT-refund mechanism</i> is a big problem (materials are purchased at the market without tax invoice) <i>Social taxes</i> are very high <i>Too many taxes</i> (road, etc.) <i>Unpredictability</i>	<b><u>UNEQUAL COMPETITION</u></b> Many constructions take place <i>without permissions and licenses</i> <i>Political instability</i>

28	-	-	Advertising services	Foreign investment	1	26-100	Country Manager	4/6/2004	<b><u>CUSTOMS</u></b> <i>Smuggling</i> is a big problem: company clients can't compete with competitors who don't pay taxes <i>Customs taxes</i> are high <i>Customs clearance procedures</i> are complicated	<b><u>TAX</u></b> <i>Social taxes</i> are very high <i>VAT rate</i> is high; <i>refund mechanism</i> is unjustifiable. Creates obstacles for promotion activities	<b><u>TAX</u></b> <i>The Advertisement tax rate is very high</i> (8%)
29	-	-	Television broadcasting	Georgian	1	26-100	Financial Manager	4/6/2004	<b><u>CUSTOMS</u></b> <i>Order #153, March 15, 2004, of the MoF</i> : customs payments should be made by wire transfer (non-cash). It makes clearance process very time-consuming, problems encountered with exchange rate fluctuation Too many mandatory <i>certificates</i> required	<b><u>TAX</u></b> <i>Social taxes</i> are very high <i>VAT rate</i> is high <i>Advertisement tax</i>	<b><u>AMNESTY</u></b> <i>Financial amnesty puts payers and non-payers in unequal conditions</i>
30	-	-	Auditing services	Georgian	1	0-25	President, Partner	4/6/2004	<b><u>TAX</u></b> <i>Social taxes</i> are very high <i>VAT rate</i> is high, refund mechanism very complicated <i>Advertisement tax</i> - should it exist? <i>Road tax base</i> is unjustifiable <i>Tax administration</i> - unreasonable penalties (for 2,500 Gel mistake 'criminal' clause applies to directors)	<b><u>UNEQUAL COMPETITION</u></b> <i>Law on Entrepreneurship</i> requires companies to submit an audit report along with annual financials. this causes unhealthy competition among qualified and less qualified audit companies	<b><u>AUDIT COUNCIL, A REGULATORY BODY FOR AUDITING COMPANIES IS INEFFICIENT</u></b>
31	-	-	Wholesale trade - confectionary	Foreign investment	1	0-25	General Manager	4/7/2004	<b><u>UNEQUAL TAX TREATMENT:</u></b> <i>Taxpayers VS non-taxpayers</i> <i>Intellectual property rights</i> are not protected	<b><u>TAX</u></b> <i>Too many taxes, high rates</i> (impact on prices), complicated tax administration system	<b><u>CUSTOMS</u></b> <i>Customs administration - no enforcement</i>

32	-	-	Beverages – soft	Foreign investment	2	251 or more	Chief Accountant	4/7/2004	<b><u>TAX</u></b> <i>Social tax</i> are very high <i>Road tax</i> - unjustifiable <i>Advertisement tax</i> - no sense <i>Declarations</i> submission dates are too close to the reporting period, which causes big problems	<b><u>PROTECTION OF INTELLECTUAL PROPERTY RIGHTS</u></b> Legislation needs to be changed; PR campaign is necessary; enforcement measures should be more strict	<b><u>LICENSES AND PERMISSIONS</u></b> <i>Permission for use of natural resources</i> is very complicated to obtain
33	-	-	Wholesale trade - drugs	Georgian	1	251 or more	Chief Consultant	4/8/2004	<b><u>TAX</u></b> <i>VAT refund</i> mechanism is a big problem <i>Ambiguity</i> of the tax code <i>Social taxes</i> are very high <i>Advertisement tax</i> is unjustifiable <i>Road tax</i> base is unjustifiable <i>Difficult to administer</i> the existing tax system Charity should not be taxed!	<b><u>CUSTOMS</u></b> <i>Order #153, March 15, 2004, of the MoF:</i> customs payments should be made by wire transfer (non-cash) and different taxes have to be transferred to different accounts. It makes clearance process very complicated and time consuming	<b><u>PROTECTION OF INTELLECTUAL PROPERTY RIGHTS</u></b> No enforcement mechanism
34	-	-	Architectural services	Georgian	1	26-100	Financial Director; Manager	4/8/2004	<b><u>TAX</u></b> <i>Abolishment of a fixed tax</i> for construction industry is a big mistake	<b><u>LEGISLATION</u></b> Contradiction between Tax and other legislation causes 80 mln \$ loss for state budget annually from construction business; it also puts taxpayers and non-taxpayers in unequal conditions	<b><u>NO ENFORCEMENT OF CONSTRUCTION STANDARDS IN TBILISI</u></b>
35	-	-	Communication	Foreign investment	2	251 or more	First Deputy Director; Finance Director	4/8/2004	<b><u>TAX</u></b> <i>VAT rate is high and refund</i> mechanism is a big problem <i>Ambiguity</i> of the tax code <i>Social taxes</i> are very high <i>Advertisement tax</i> is unjustifiable <i>Road tax</i> base is unjustifiable No definition of place of rendering roaming service	<b><u>SOCIAL ENVIRONMENT IN THE COUNTRY</u></b>	<b><u>CUSTOMS</u></b> <i>Order #153, March 15, 2004, of the MoF:</i> customs payments should be made by wire transfer (non-cash) and different taxes have to be transferred to different accounts. It makes clearance process very complicated and time

										consuming <i><b>Bureaucracy and corruption</b></i>	
36	-	-	Pipelines	Foreign investment	1	101-250	External Affairs Director	4/13/2004	<b><u>NO IMPLEMENTATION MECHANISMS IN HOST GOVERNMENTAL AGREEMENT</u></b> Difficulties faced in obtaining tax and customs exemption certificates Agreements and legislative acts are needed for smooth implementation of HGA Bureaucracy, non-competency, non-ability of decision-making, no delegation of functions, no government support	<b><u>LAND PROBLEMS and EMINENT DOMAIN</u></b> Land registry information does not coincide with reality, which created a lot of problems Land can not be taken from private ownership without payment, which contradicts the law. this created big problems for BTC pipeline project	<b><u>SOCIAL ENVIRONMENT IN THE COUNTRY</u></b> Pipeline affected route population conduct strikes due to lack of electricity, bad roads, etc. which affects the company activities
37	-	-	Pipelines	Foreign investment	1	251 or more	Director; Deputy Director	4/13/2004	<b><u>NON-AVAILABILITY OF CONSTRUCTION MATERIALS AND EQUIPMENT COMPLIANT WITH INTERNATIONAL STANDARDS IN THE LOCAL MARKET</u></b>	<b><u>CONSTRUCTION INDUSTRY IS NOT DEVELOPED. VERY POOR INFRASTRUCTURE. QUALIFICATION AND WORK ETHICS OF MANPOWER (E.G. SUBCONTRACTORS) IS VERY LOW.</u></b>	<b><u>SOCIAL ENVIRONMENT IN THE COUNTRY</u></b> Pipeline affected route population conduct strikes due to lack of electricity, bad roads, etc. which affects the company activities
38	-	-	Tobacco products	Georgian	2	251 or more	Finance Director	4/13/2004	<b><u>TAX</u></b> <i>VAT refund</i> mechanism is a big problem <i>Social taxes</i> are very high <i>Double taxation</i> (dividends, income)	<b><u>CUSTOMS</u></b> <i>Smuggling</i> from Ukraine and Russia creates unhealthy competition between the company and its competitors	<b><u>LACK OF INCENTIVES FOR INVESTMENTS</u></b>

39	-	-	Plastics products	Foreign investment	1	26-100	Executive Manager	4/14/2004	<b><u>CUSTOMS</u></b> <i>Customs taxes are very high</i> which makes imported material very expensive <b><i>Order #153, March 15, 2004, of the MoF:</i></b> customs payments should be made by wire transfer (non-cash) and different taxes have to be transferred to different accounts. It makes clearance process very complicated and time consuming <i>Export licenses</i> are very difficult to obtain	<b><u>TAX</u></b> <i>Ambiguity of the tax code</i> (the European investor had serious problems) <i>Social &amp; Personal Income Tax Rates</i> are very high <i>VAT</i> rate is high <i>Road tax</i> is unjustifiable <i>Taxation of non-residents</i> (10%) <i>Problems with tax officials</i> (the company was charged 1 mln Gel payment without ground)	<b><u>ENERGY SUPPLY PROBLEM</u></b> <i>Electricity quality</i> is low, which destroys facilities and spare parts are very expensive
40	-	-	Oil and gas extraction	Foreign investment	1	101-250	Office Manager	4/14/2004	<b><u>CUSTOMS</u></b> <i>Customs administration:</i> customs officials are unprofessional		
41	-	-	Transportation services	Foreign investment	1	0-25	Managing Director	4/15/2004	<b><u>TAX</u></b> <i>Ambiguity of the tax code, in particular, tourism business is not regulated in terms of VAT</i> <i>Social &amp; Personal Income Tax Rates</i> are very high	<b><u>TOURISM BUSINESS IS NOT SUPPORTED BY GOVERNMENT</u></b>	<b><u>MONOPOLIZATION OF AIR INDUSTRY BY AIRZENA</u></b>
42	-	-	Metal industries	Foreign investment	1	251 or more	General Director	4/15/2004	<b><u>TAX</u></b> <i>VAT is not refunded</i> (budget owes 4 mln Gel to the company)	<b><u>CUSTOMS</u></b> A special license is needed to obtain at the beginning of the year whereas quantities of the material to be imported during the year should be specified. Very inflexible procedure	<b><u>LABOR CODE</u></b> <i>Sick leave regulation</i> is a big problem



43	-	-	Beverages - alcoholic	Georgian	1	251 or more	Finance Manager	4/16/2004	<p><b><u>TAX</u></b>  <i>VAT refund mechanism</i> is a source of corruption; rate is high  <i>Social and income tax rates</i> are very high  <i>Excise tax</i> rates are high  <i>Ambiguity of the tax code</i>  <i>Road tax</i> is unjustifiable  <i>Property tax and land tax</i> should not exist for non-operating enterprise  <i>Tax rates should not be higher in Georgia comparing to neighbor countries</i>  <i>Low wages of tax officials</i> is a source of corruption</p>	<p><b><u>CUSTOMS</u></b>  <i>Import taxes</i> should not be equal for importers and local producers - local companies should have incentives  <i>Smuggling</i> causes unhealthy competition</p>	<p><b><u>PROTECTION OF INTELLECTUAL PROPERTY RIGHTS</u></b>  No enforcement mechanism</p>
44	-	-	Public warehousing and storage	Foreign investment	-	26-100	Finance Manager	4/16/2004	<p><b><u>RAILWAY</u></b>  <i>Tariff policy</i> causes losing of clients</p>	<p><b><u>TAX</u></b>  <i>Social and income tax rates</i> are very high  <i>Ambiguity of the tax code</i>  <i>Tax administration</i>: submission dates for declarations are very close to the reporting period. Declaration forms are complicated; bad coordination</p>	<p><b><u>CUSTOMS and LICENSES</u></b>  <i>Licenses &amp; permissions</i> are needed for terminal construction. Very bureaucratic procedures  <i>Order #153, March 15, 2004, of the MoF</i>: customs payments should be made by wire transfer (non-cash) and different taxes have to be transferred to different accounts. It makes clearance process very complicated and time consuming</p>

45	-	-	Glass products	Foreign investment	2	251 or more	Finance and Planning Director	4/16/2004	<p><b><u>CUSTOMS</u></b>  <i>Import taxes</i> for production materials are high; higher rates should apply to importers of bottles than to local producers  <i>Order #153, March 15, 2004, of the MoF</i>: customs payments should be made by wire transfer (non-cash) and different taxes have to be transferred to different accounts. It makes clearance process very complicated and time consuming  <i>Export procedures</i> are complicated</p>	<p><b><u>TAX</u></b>  <i>Social and income tax rates</i> are very high  <i>Ambiguity of the tax code</i>  <i>VAT refund mechanism</i> is complicated (currently the company has a court suit)  <i>Property tax</i> should be lowered for producers</p>	<p><b><u>LACK OF GOVERNMENT SUPPORT</u></b></p>
46	-	-	Legal services	Georgian	-	0-25	Partner	4/19/2004	<p><b><u>TAX</u></b>  <i>Social and income tax rates</i> are very high: incentive for tax evasion  <i>Taxation regime for consulting business</i> should differ from the taxation regime for other businesses as work orders in consulting business is unpredictable</p>	<p><b><u>TAX</u></b>  Deduction of <i>representation expenses</i> is unclear</p>	<p><b><u>ATTITUDE OF STATE BODIES AND PUBLIC OFFICIALS TO PRIVATE BUSINESSES</u></b></p>
47	-	-	Public warehousing and storage	Foreign investment	-	251 or more	Representative	4/19/2004	<p><b><u>CONFLICT BETWEEN CENTRAL GOVERNMENT AND ADJARA AUTHORITIES</u></b>  Customers are re-routing transportation due to instability in the region</p>	<p><b><u>RAILWAY TARIFFS ARE VERY HIGH</u></b></p>	<p><b><u>FOREIGN INVESTORS SHOULD BE BETTER SUPPORTED BY THE GOVERNMENT</u></b></p>

48	-	-	Wholesale trade - cosmetics	Foreign investment	2	26-100	General Manager	4/19/2004	<b><u>CUSTOMS</u></b> <i>Order #153, March 15, 2004, of the MoF:</i> customs payments should be made by wire transfer (non-cash) and different taxes have to be transferred to different accounts. It makes clearance process very complicated and time consuming	<b><u>TAX</u></b> <i>Social and income tax rates</i> are very high <i>Ambiguity of the tax code</i> Huge amount of <i>advances</i> paid <i>VAT refund mechanism</i> is very complicated (100,000 Gel is impossible to refund due to the illogic existing rule) <i>Advertisement tax</i> is very high	<b><u>ATTITUDE OF GOVERNMENT TO TAXPAYERS:</u></b> <b><u>NON-SUPPORTIVE</u></b>
49	-	-	Energy	Foreign investment	1	251 or more	Head of Economic Department; Attorney	4/19/2004	<b><u>LACK OF COORDINATION AMONG MINISTRY OF ENERGY, GEORGIAN NATIONAL ELECTRICITY REGULATION COMMISSION, GEORGIAN WHOLESALE ELECTRICITY MARKET</u></b> Functions are not segregated properly among the three bodies and hence each of them try to avoid responsibility	<b><u>LACK OF CLEAR AND TRANSPARENT RULES</u></b> Legislation should be refined. Market role is very diminished, it should have a regulatory role	<b><u>TAX</u></b> <i>VAT on commercial loss</i> <i>No legal framework of enforcement measures for stealing of electricity</i> <i>Unpredictability of laws - problem in planning</i> <i>VAT rate is high</i>
50	-	-	Agricultural chemicals	Foreign investment	1	251 or more	Deputy General Director	4/20/2004	<b><u>CUSTOMS</u></b> For importation of material should be tax concessions Gas importation regime needs to be clarified	<b><u>VAT TAXATION REGIME FOR AMMONIUM NITRATE HAS BEEN NEGATIVELY CHANGED SINCE 2003</u></b> Inland realization of the chemicals has been exempted from VAT, while materials are still taxed (no opportunity to refund)	<b><u>ENERGY SUPPLY PROBLEM</u></b> Very risky for this business. It causes high losses

